Investment Risk Report

for

The Trustees of the A Sample Will Trust

by

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of

Smythe & Walter Chartered Financial Planners

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Introduction

The purpose of this report is to provide the Trustees with information to enable them to comply with their duty of care under The Trustee Act 2000 when exercising the general power of investment and to ensure that investments retained by the Trust are suitable and give due regard for the need for diversification where appropriate.

The suitability of different types of investments will be influenced by many factors such as:

- The nature and terms of the Trust
- The investment requirements of the Trustees and Beneficiaries
- The underlying taxation of the investment
- The impact of administration costs
- The tax position and risk profile of the Trustees and Beneficiaries
- The sum available for investment
- The investment skills and knowledge of the Trustees
- Any relevant ethical or other investment considerations

The report does not provide specific investment advice for the Trust but does provide recommended actions which should be considered.

If following consideration of the recommendations in this report the Trustees wish to receive specific advice and take any action, then this should be addressed as a separate matter either with ourselves* or with the Trustees usual advisers.

The report has been prepared based on the information supplied to Smythe & Walter Chartered Financial Planners. If there are any errors or omissions in the information supplied this may affect the outcome of the report and you should notify us accordingly if this is the case.

(*Smythe & Walter Chartered Financial Planners are Independent Financial Advisers and therefore meet the requirement of the Law Society to only refer clients to Independent Financial Advisers where financial advice is required. We would be happy to discuss our terms with you for providing advice if required).

Trust details and objectives

The Trust was created in 2006 following the passing of Mrs A Sample.

The original Trust property was £250,000 which was invested in to a range of holdings at outset.

The Trustees are A Solicitor and Mr B Sample, who is Mrs A Sample's son.

This is a discretionary Trust with a wide range of potential Beneficiaries, although the Default Beneficiaries of the Trust are Mrs A Sample's current grandchildren in equal portions;

Master C Sample Age 11

Miss D Sample Age 9

It is intended that the Trust funds will be distributed to the Beneficiaries on their attaining age 25, but that the Trust fund should also be used to assist in the payment of University fees if applicable.

Trustee risk assessment results

As part of the information gathered, the Trustees have indicated their current appetite for risk in relation to the Trust.

The assessment was conducted using a scale of options rated from 1-10, with 1 being the lowest risk.

You completed the risk profiling exercise which looks at the trade-off between the risks involved in investing and the potential returns.

<u>Your risk profile</u>

As a result of the exercise you have selected a risk profile of 4 out of 10, which is considered to be in the lowest category of “balanced investor”.

A Balanced Investor is looking for a balance of risk and reward, seeking higher returns than those available from a high street deposit account and willing to accept a certain amount of fluctuation in the value of their investments as a result. However, they would feel uncomfortable if their investments were to fall in value significantly in one year.

Your preferred investment portfolio is likely to contain mainly low-risk investments such as cash and bonds, with a few higher-risk investments such as shares. While a portfolio like this should go up and down in value less than a ‘high-risk’ portfolio, the value of investments can always go down as well as up.

Potential gain or loss

For each risk profile there is an indication of the range of annual returns which may be experienced based on an investment held in a suitable range of assets for each risk profile.

The figures are not a minimum or maximum but are based on long-term historic returns for each asset class.

For a risk profile of 4 out of 10 the range of returns which may be experienced in any one year, based on an investment of £5,000, is as follows;

Potential loss	£667.87
Potential gain	£884.71

Capacity

As part of the process of establishing your attitude to risk and determining the suitability of various potential investment risk profiles, it is important to consider what is called your “capacity for risk”. Your capacity for risk is the degree to which your personal circumstances and opinions will impact on specific investment decisions which may be recommended.

Investment timeframe	
Q: When do you intend to use the invested money?	A: Long term (10+ years)
You are investing for a longer term; consequently any portfolio will have more time for potential market volatility to even out. In practice this means where volatility results in a period of loss there is greater chance to achieve a recovery. This may allow more opportunity to take higher risks.	
Your capacity for loss	
Q: How much of this investment could you stand to lose without having a significant impact on your future objectives?	A: Small / medium losses could be tolerated
Whilst small losses could be tolerated, you should consider whether larger losses might substantially impact your future standard of living. You should ensure you understand the range of possible outcomes, such as are displayed on the risk level selection screen and forecast (if applicable).	
Investment liquidity	
Q: If you needed sudden access to a lump sum, how likely is it that you would need to encash this investment?	A: We have other savings and investments which we can use for most needs
Providing you don't require early access to this investment, issues around liquidity shouldn't impact the risk you are able to take.	

Current portfolio review

The current portfolio is made up of a range of holdings with a current value (at time of review) of £283,540.

Studies have shown that asset allocation accounts for more than 90% of an investment portfolio's risk and return characteristics. This essentially entails diversifying investments between different asset types - typically, equities, corporate bonds or cash equivalents - and geographical areas, to reflect the investor's goals and risk tolerance. Within the asset groups, a further process of fund selection needs to be completed, but over the longer term the choice of fund matters considerably less than the asset class that it represents.

Reviews and adjustments of the asset mix at regular intervals are also important. Different asset classes will perform at different rates, and their relative growth or shrinkage will alter the original asset allocation, resulting in 'portfolio drift'.

The normal picture of a portfolio of, say, unit trust investments is not much more than a list of funds and their associated data. By contrast, this analytical facility aggregates all the available data on a selection of funds, and maps the characteristics of the portfolio as a whole. The resulting report presents an analysis of the portfolio's funds, sectors, holdings, asset classes and past performance.

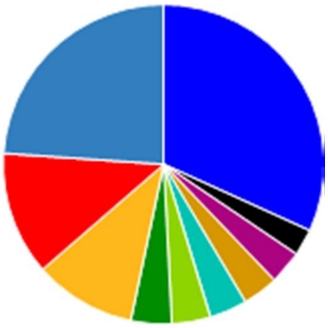
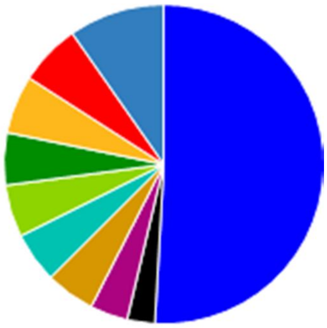
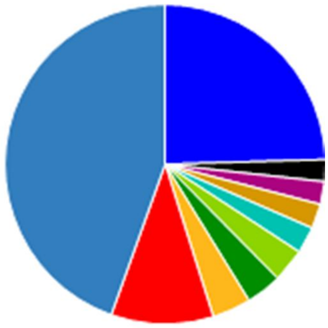
Portfolio Composition (Holdings)

Manager	Holding	% of total	5 Yr % return
Aviva Investors UK Fd Serv	Aviva Inv Property Trust Inc	5.1	-27.5
Fidelity (FIL Investment Intl)	Fidelity American	9.0	28.9
Fidelity (FIL Investment Intl)	Fidelity Special Sits	13.2	25.1
Henderson Global Investors Ltd	Henderson European Selected Opps R	9.6	38.1
Henderson Global Investors Ltd	Henderson Pref & Bd A Inc	8.1	16.0
Jupiter Unit Trust Mgrs	Jupiter Emerging Eurpn Opps Acc	4.3	20.8
Liontrust Fund Partners LLP	Liontrust Income R	10.3	-1.8
M&G UK	M&G Global Basics A Acc GBP	11.5	63.6
M&G UK	M&G High Yield Corp Bd A Acc GBP	8.8	26.1
Schroder UT Managers	Schroder Tokyo A Acc	4.0	11.1
Equity	BP PLC sh.25	7.1	-5.6
Equity	Barclays PLC ORD 25p	8.1	-55.4
Cash	RBS	0.7	-
Total Portfolio		**100.0**	**3.4**
Selected Benchmark	Consumer Price Index +3%		34.7

Benchmark – For comparison of the portfolio performance we have used an absolute benchmark (rather than relative to a market) so as to assess the portfolio’s ability to maintain and grow the real terms value of the Trust fund.

Graphical View of Holdings

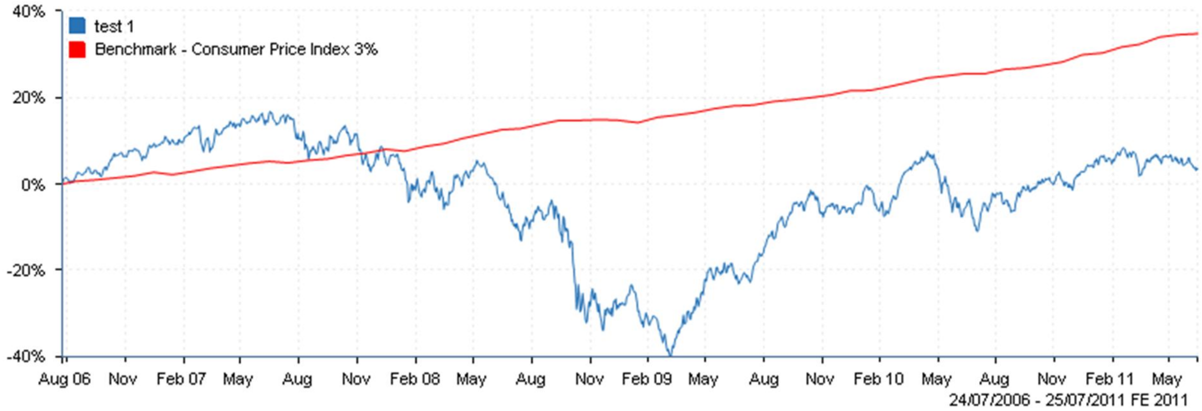
There follows a detailed breakdown of the portfolio composition. The pie charts illustrate how its aggregated investments are split between various geographical areas, assets and industrial sectors. The Top 10 Holdings listing summarises how the portfolio is weighted by its most prominent individual holdings.

Asset Allocation	Sectors	Regions
		
23.9 UK EQUITIES	9.7 FINANCIALS	44.5 UK
12.5 UK FIXED INTEREST	6.2 INDUSTRIALS	10.3 USA
10.3 US EQUITIES	5.9 CONSUMER GOODS	3.9 JAPAN
4.1 PROPERTY	5.3 CONSUMER SERVICES	3.6 MONEY MARKET
3.9 JAPANESE EQUITIES	5.3 BASIC MATERIALS	3.4 FRANCE
3.8 UK CORPORATE FIXED INTEREST	5.1 HEALTH CARE	2.7 RUSSIA
3.6 MONEY MARKET	5.0 OIL & GAS	2.5 GERMANY
3.4 FRENCH EQUITIES	3.8 HIGH YIELD BOND	2.3 AUSTRALIA
2.7 RUSSIAN EQUITIES	2.8 INVESTMENT GRADE BONDS	2.2 SWITZERLAND
31.8 Other Holdings	50.9 Other Holdings	24.5 Other Holdings

Top 10 Holding (as % of Trust fund) - Excluding cash account

Holding Weight	Hold Name	Holding Weight	Hold Name
8.1	Barclays PLC ORD 25p	0.8	CHEVRON CORP
7.6	BP	0.8	BRITISH SKY BROADCASTING GROUP
1.1	GERMANY(FEDERAL REPUBLIC) FLTG RATE NTS 15/04/13 EUR0.01	0.7	Unknown
0.9	GLAXOSMITHKLINE	0.7	VODAFONE GROUP
0.8	HSBC HLDGS	0.6	LLOYDS BANKING GROUP PLC

The following chart measures the portfolio's standard total returns against the selected benchmark.



The final section of this analysis also offers a selection of key performance ratios, including the risk-adjusted Sharpe and Information Ratios, and a measure of the portfolio's volatility, or risk. Again, these are calculated by reference to the chosen benchmark.

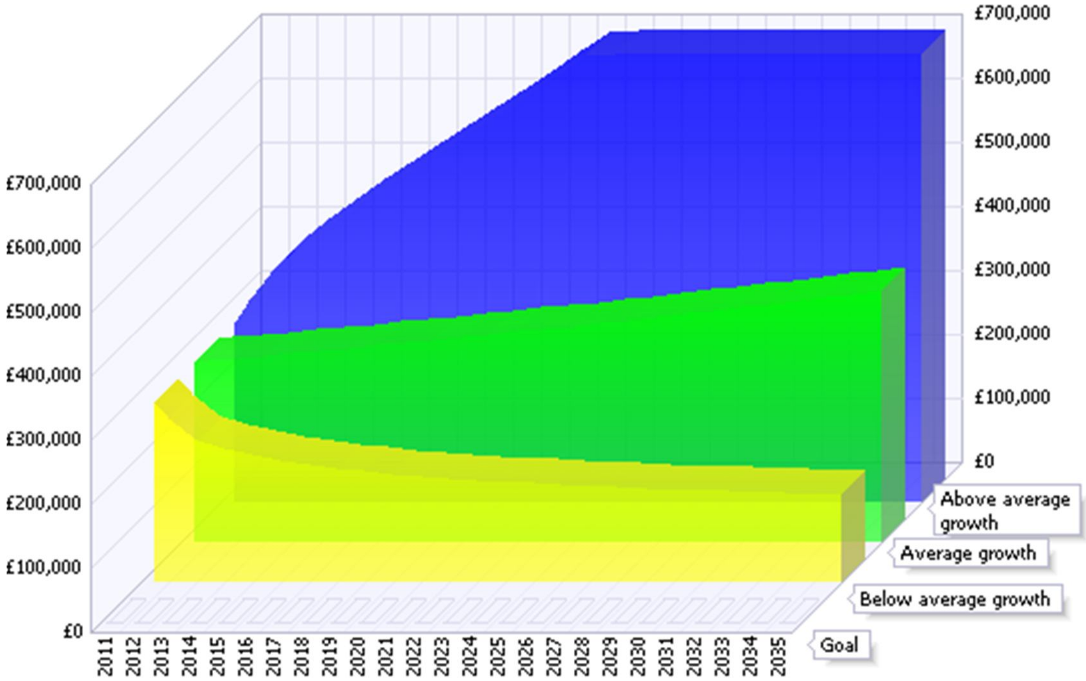
Performance Details

Discrete Performance	25-Jul-2010 to 25-Jul-2011	25-Jul-2009 to 25-Jul-2010	25-Jul-2008 to 25-Jul-2009	25-Jul-2007 to 25-Jul-2008	25-Jul-2006 to 25-Jul-2007
Portfolio	8.1	14.0	-8.3	-19.4	13.4
Benchmark - Consumer Price Index +3%	7.3	6.2	4.8	7.5	4.9

Cumulative Performance	3m	6m	1y	3y	5y
Portfolio	-2.8	-2.4	8.1	13.1	3.4
Benchmark - Consumer Price Index +3%	0.6	3.4	7.3	19.4	34.7

Performance Analysis	Growth Rate %	Volatility	Alpha	Beta	Sharpe	Info Ratio %
Portfolio	0.7	17.3	-11.6	2.4	0.0	-0.3
Benchmark - Consumer Price Index +3%	6.2	1.4	0.0	1.0	2.0	0.0

The wealth forecast graph (below) shows how a portfolio of assets based on your current arrangements might perform over the long term based on a number of assumptions. This is not a projection of how the investments you currently hold might perform.



The graph shows potential investment values in today's prices.

Please note that stock market related investments can fall as well as rise and returns are not guaranteed.

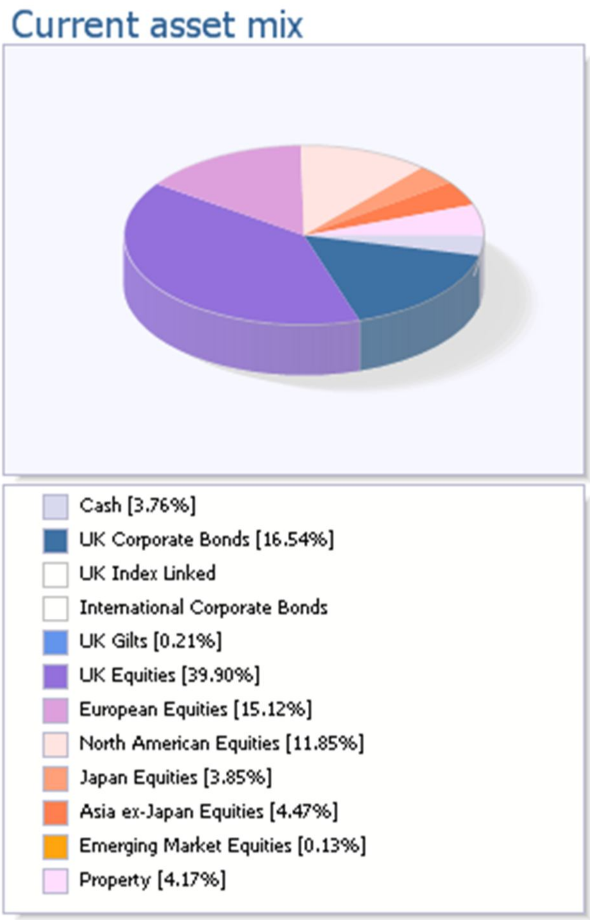
The figures used are only examples of what a particular asset allocation strategy might achieve and are not minimum or maximum amounts or guaranteed in any way. The actual level of any return will depend on the specific investments made, how these grow or fall and on the tax treatment and charges incurred of each specific product.

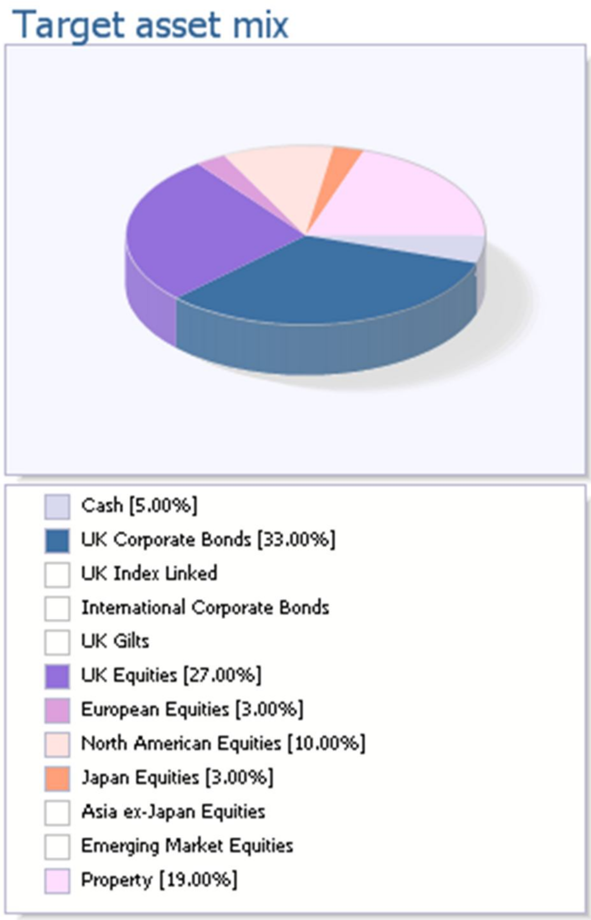
Please refer to the section on Financial Planning Assumptions for more detail on the analysis and assumptions used.

Current portfolio vs desired risk

From the information we have about the current Trust investments they are comprised of the asset types shown below in the left hand chart.

Based on your attitude towards risk however, the Target asset allocation would be that as shown in the right hand chart.





The Current Portfolio would be assessed as Profile 6 (High medium risk) and has an estimated potential annual growth rate (inflation adjusted) of 3.54% a year.

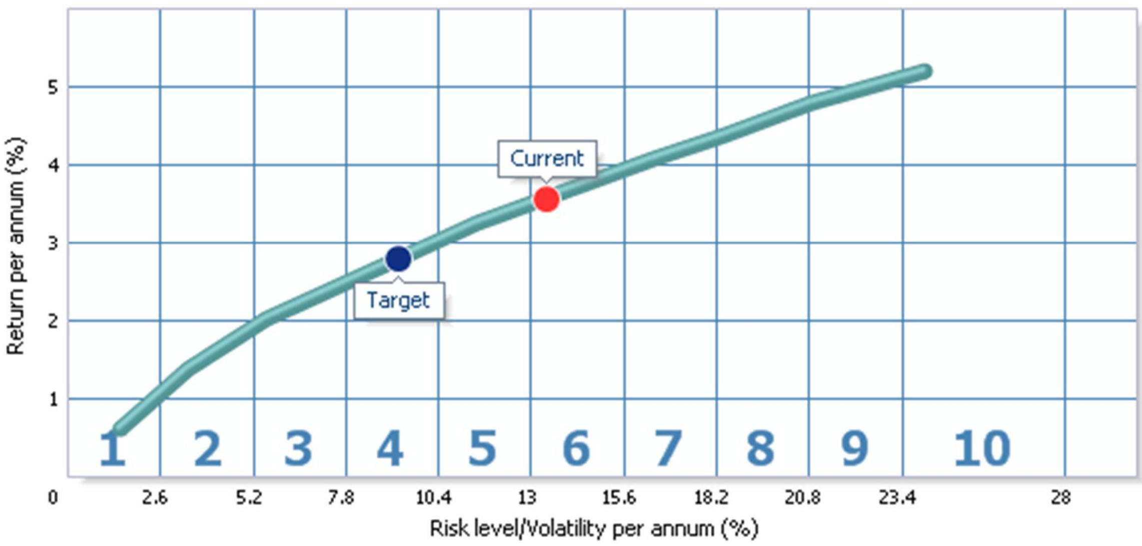
The Target Portfolio is based on your risk assessment of Profile 4 (Lowest medium risk) and has an estimated potential annual growth rate (inflation adjusted) of 2.78% a year.

Your target asset allocation

We believe that a portfolio of investments that looks like the one above on the right may be appropriate for you.

The reason that this portfolio is appropriate for you is that the portfolio is designed to provide an opportunity for long term capital growth, whilst also providing limited protection against serious market falls based upon the inclusion of fixed interest securities. The capital value of the portfolio may fall, and an investor is not guaranteed to receive back the amount invested.

Risk and return expectations



This graph shows your current portfolio and our suggested target portfolio on a Risk and Return basis.

The efficient frontier line shows the highest, most likely return you can expect for any level of risk you are prepared to take. This assumes average growth forecasts for the generic asset types. Anything under that efficient frontier line is said to be an inefficient portfolio – this is because you could either be achieving the same level of return for less risk or could achieve more return without increasing your risk.

By maintaining a portfolio in line with your target asset allocation, you can keep an efficient mix of risk and return.

Recommended actions

The purpose of these recommended actions is to highlight generic areas where we believe there should be further consideration given to making adjustments to the investment of the Trust fund.

- By retaining the current asset allocation the Trust may experience a greater amount of volatility than would be acceptable to the Trustees.

- We therefore recommend you receive specific advice on moving the Trust investments towards the target asset allocation over appropriate timescales and in as efficient manner as possible.

- Due regard will need to be given to the tax position of any investment alterations.

- As part of the move to a more appropriate overall asset allocation you should consider whether the current individual holdings should be retained or replaced where appropriate.

- Consider the use of a tax wrapper, such as an Offshore Investment Bond, to improve the tax efficiency of the Trust holdings*. This could also simplify the administration of the Trust.

*Use of an Offshore Bond could improve the tax efficiency by rolling up any income or gains tax free until the point of encashment. This could be particularly suitable where small amounts are required each year to fund University costs. Further details on this are outside the scope of this report but we would be happy to consider this further with you should you wish.

APPENDIX

Financial Planning Assumptions

Figures are in today's prices (i.e. assuming that prices don't rise and that £1 now will be able to buy the same amount in the future as it can now).

Inflation rates	Rate
Price inflation	2.5

Risk

The risk of current portfolios is assessed only by looking at the risk associated with the currently held asset classes. This risk is measured using the expected volatility of these asset classes. It is important to note that this measure of risk does not include an assessment of product specific risks, such as; encashment outside of maturity dates, or security or fund specific risk or market timing.

Maximum likely loss and likely gain over 12 months

These figures are produced by taking the Estimated Potential Variances for a 12 month simulation and applying them to the portfolio.

Basic Methodology

The Portfolios are provided by Distribution Technologies who model asset returns using Geometric Brownian Motion, also known as the lognormal model. This model depends on two parameters: the expected growth rate (in our case the real i.e. inflation adjusted growth rate) and the volatility (standard deviation, a measure of the riskiness of the growth rate). The current values are shown in the chart below.

These are estimated based on both historical returns and on an in house analysis of market data at the review date, including bond and gilt yields. These values can then be put into a closed form formula to calculate the likely returns at the 5%, 50% and 95% level into the future. For example the annualised level of return the portfolio is likely to exceed over the next 20 years can be calculated with a 95% probability.

The above assumptions are based on their analysis, however please note that stock market related investments can fall as well as rise and returns are not guaranteed. The figures used are only examples of what a particular asset allocation strategy might achieve and are not minimum or maximum amounts or guaranteed in any way. The actual level of any return will depend on the specific investments made, how these grow or fall and on the tax treatment and charges of each specific product.

Portfolio	Assumed average growth rate	Assumed average volatility	
Portfolio 1	0.60%	1.50%	
Portfolio 2	1.38%	3.42%	
Portfolio 3	2.03%	5.58%	
Portfolio 4	2.78%	9.28%	
Portfolio 5	3.23%	11.46%	
Portfolio 6	3.67%	13.97%	
Portfolio 7	4.06%	16.41%	
Portfolio 8	4.37%	18.48%	
Portfolio 9	4.79%	20.86%	
Portfolio 10	5.18%	24.07%	

The portfolio forecast

This forecast takes the Estimated Potential Returns and Variance for each Asset class and grows the portfolio using these estimates.

Three possible forecasts are shown:

- A good performance, where the assets have a run of continually good years over the forecast. Statistically there is a 95% chance that the assets will grow at less than this rate.

- An average performance, where the assets continually grow at the Estimated Potential Return rate. Statistically this is the (50th percentile) the average return rate expected.

- A poor performance where the assets have a run of continually poor years. Statistically there is only a 5% chance that the assets will perform worse than this.